

## **Internal Control Assessment IRS Debt Offset Program - 1099C**

### **Purpose**

To ensure that FSA's internal control policies and standards regarding the IRS debt offset program comply with policies established by OMB Circular A-129 and the Internal Revenue Code.

### **Background**

In accordance with the Internal Revenue Code and OMB Circular A-129, FSA must report debts over \$600 that are written off as uncollectible to the IRS and the debtor. Upon write-off, FSA must file a Form 1099C with the Internal Revenue Service (IRS) and subsequently notify the debtor. The 1099C reports the uncollectible debt as taxable income to the debtor. Reporting the discharge of indebtedness to the IRS results in a potential benefit to the Federal Government, because any payments made to the IRS potentially augment government receipts. FSA should report written-off debts on the Treasury Report on Receivables Due from the Public (TROR). FSA must cease all collection activity once a debt is written-off.

### **Internal Control Standard**

FSA must issue 1099C to debtors and to the Internal Review Service for amounts written off of \$600 or more.

### **Assessment of FSA's Compliance\***

We held meetings with FSA staff and determined that a 1099C was not submitted to the IRS for all debts closed out over \$600. Of XX closed out debts sampled, XX% had indeed been forwarded to the IRS. No explanation was given for the XX% of debts which had not been submitted via form 1099C to the IRS.

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\*The actual testing phase including interviews and examination of sampled records has not yet occurred. This write up is only a sample of what may be discovered during the testing phase of the FMFIA process.